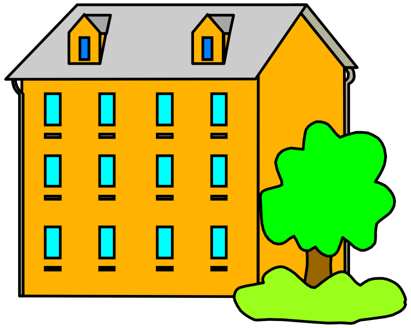
BUILDING HOME

Rental Housing Activities

Rental Housing

- This chapter covers:
  - Eligible activities and forms of assistance
  - Eligible beneficiaries and properties



Eligible Activities

- HOME funds may be used for:
  - Acquisition
  - Rehabilitation
  - New construction

- Developers or owners can be:
  - PJs
  - For-profits or nonprofits (incl. CHDOs)
  - Private property owners
  - PHAs

Forms of Assistance

- HOME allows grants, loans and other forms of assistance
- Common forms of assistance with rental housing:
    - Predevelopment loans and grants
    - Construction loans
    - Permanent mortgage loans
    - Bridge loans
    - Credit enhancements

Operating Deficit Reserves

- Initial operating deficit reserve in new construction AND rehab projects allowed
  - Reserve cannot exceed 18 months
- Reserve can be used only for:
  - Project operating expenses
  - Scheduled payments to replacement reserves
  - Debt service

What is a Project?

- A project is 1 or more buildings on a site or sites under common ownership, management and financing
- Sites do NOT have to be within a 4-block area
- Project includes ALL activities associated with the site or building

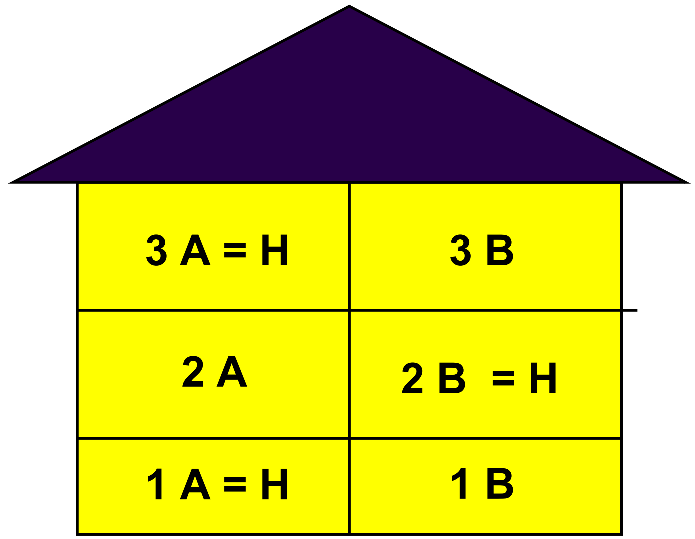
Maximum HOME Investment

- HOME maximum per unit subsidy limit applies
- The amount of actual subsidy per unit will depend upon:
  - Proportion of total project cost that is HOME-eligible
  - How many units are HOME-assisted units AND
  - The financial needs of the project

Determining HOME-Assisted Units

- Only units receiving HOME $ are subject to HOME requirements
- Number of HOME units must be specified at project commitment
  - For properties with HOME and non-HOME units, must select “fixed” or “floating” HOME units

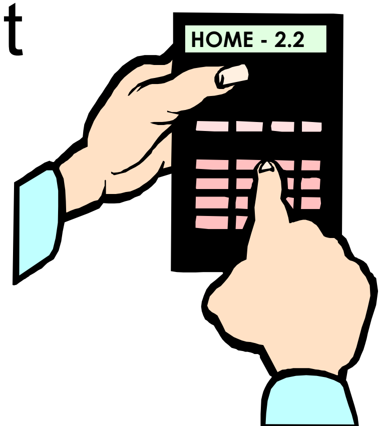
Fixed & Floating Units



- Fixed = 1A, 2B, 3A always HOME units
- Floating = unit numbers change but always have 3 HOME units

Allocation Costs

- Determine total HOME eligible costs
- For projects with HOME and non-HOME units, allocate costs across units
  - If HOME and non-HOME units are *comparable*, costs can be pro-rated
  - If units are not comparable, actual costs must be determined unit-by-unit



Roles of Nonprofit and CHDO

- Nonprofits may be:
  - Developers, owners and sponsors
  - Property managers
  - Program administrators (as subrecipients)
- CHDO as owner, developer or sponsor counts towards CHDO set-aside

Eligible Properties

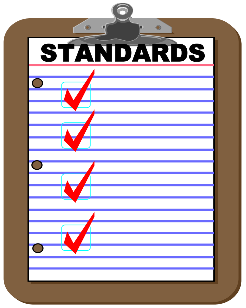
- No requirements on type or style of property
- Eligible types include:
  - Transitional and permanent housing
  - SROs and group homes
  - ECHO units

Ineligible Properties

- Property previously assisted with HOME during its affordability period
- Public housing financed under the 1937 Act

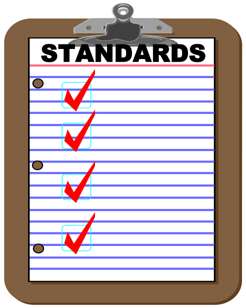
Property Standards

- Acquisition only:
  - State/local code
  - If no state/local code applies, Section 8 HQS
- Rehabilitation:
  - PJ's written rehab standards AND applicable state/local code
  - If no state/local code applies, one of the national model codes



Property Standards

- New construction:
  - State/local code OR
  - If no state/local code, one of the national model codes
  - Model Energy Code



Other Standards

- Handicapped accessibility (Section 504) requirements may apply
- Site and Neighborhood Standards apply to new construction of rental housing
- Fair Housing applies to all new construction

Long-Term Affordability

- Acquisition or acquisition and rehab activities:

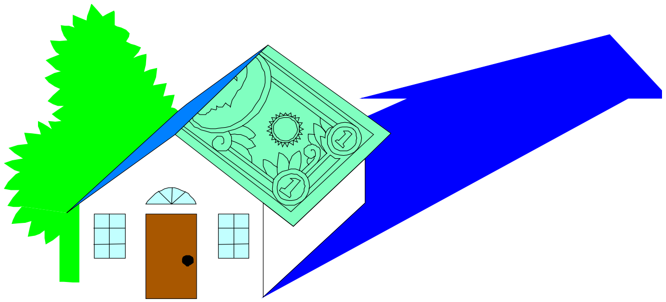
Per Unit HOME $	Min. Affordability Period
<$15,000	5 years
$15,000 - $40,000	10 years
>$40,000	15 years
New Construction/ Acquisition	20 years
Refinancing of Rehab	15 years

Rent and Occupancy Requirements

- Must be legally enforced for the term of the affordability period through:
  - Covenants
  - Deed restrictions
  - Others approved by HUD
- May only be terminated upon transfer by deed or lieu of foreclosure – PJ must repay funds for units no longer affordable

HOME Rents

- High HOME and low HOME rents
  - Published by HUD
  - Tenants given notice of increases
- Adjust rents for tenant-paid utilities



The Program Rule

- 90% Of households assisted with HOME rental and TBRA must have incomes at/below 60% of MFI
  - Applies when funds are spent -- initial occupancy
  - NOT project-specific
  - Balance of units may be at/below 80% of MFI

The Project Rule

- Projects with 5 or more units must have at least 20% of units occupied by families at/below 50% of MFI
  - Rents must be at Low HOME rent level
  - Balance of units may be at/below 80% of median at high HOME rent level

To Meet Program Rule Initial Occupancy Rule

- ALL $\leq$ 60% median (High HOME Rent)
- Projects $\geq$ 5 units
  - 20% $\leq$ 50% median (low HOME Rent)
- Exceptions up to 80% median for in-place tenants

Initial Income Eligibility

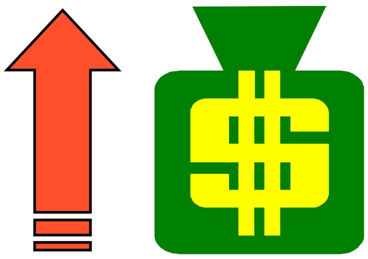
- To determine eligibility, use 1 of 3 income definitions:
  - Part 5 (gross) income
  - Adjusted gross income defined by IRS for IRS Form 1040
  - Annual income as reported on Census long form
- Source documentation must be obtained and verified

Annual Income Re-examinations

- Annually, tenant income must be re-examined
  - Review source docs OR (at PJ discretion)
  - Get written statement and certification from the family OR
  - Get written statement from another means-tested government program
- At least every 6th year, source docs MUST be reviewed

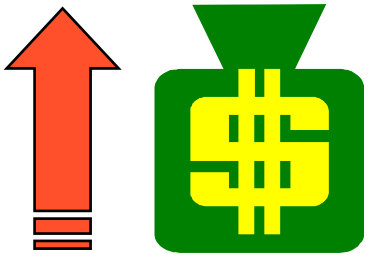
Increases in Tenant Income

- If the income of a tenant in Low HOME Rent unit increases up to 80% of MFI:
  - May increase rent to High HOME rent level
  - Must rent the next HOME-assisted unit (fixed projects) or next available unit (floating projects) at Low HOME rent



Increases in Tenant Income

- If income of a tenant in a HOME unit exceeds 80% of MFI...
  - Tenant may remain in HOME-assisted unit <u>BUT</u>
  - Tenant must pay rent equal to 30% of *adjusted* monthly income (HOME fixed units)
- Projects with HOME and LIHTCs are exempted from this requirement



Increases in Tenant Income in "Floating" Unit Projects

- Exception for tenants whose income increases above 80% MFI in "floating" HOME units -- rent cannot exceed comparable market rent
- In "floating" unit projects, next available unit must be rented to HOME-eligible tenant

Monitoring and Inspections

- PJs must verify compliance with HOME requirements each year
- On-site property inspections are required:
  - Every 3 years for projects with 1-4 units
  - Every 2 years for projects with 5-25 units
  - Each year for projects with 26 or more units

Layering Review

- PJs must evaluate projects to ensure that only amount of HOME funds necessary is invested
- PJ must have written layering guidelines
- Each project file must contain the subsidy layering review
- PJs may use layering reviews done by HUD or State agencies

Layering Review

- If PJ’s conduct their own reviews, need to analyze:
  - Sources and uses of funds
  - Certification of government assistance
  - Project development budget
  - Proforma
- Determine per-unit costs

LIHTC Basics

- Important source of equity
  - Dollar for dollar tax credit for 10 years
  - Developer serves as general partner
  - Investors purchase credits and participate as limited partners

LIHTC Basics

- Eligible Use
  - New construction
  - Rehabilitation
  - Acquisition of existing housing for conversion of affordable units

LIHTC Affordability Requirements

- Rents are similar to HOME-- based on median income and unit size, utility costs included in rents.
- Occupancy thresholds:
  - **At least 20% of units occupied by < 50% of median; or**
  - **At least 40% of units occupied by < 60% of median**
- 30 year affordability period (15 year compliance period and 15 year extended use)

Calculating the LIHTC

- Eligible Basis (excludes land cost) x Applicable Fraction (units or floor space) x 130% (QCT/DDA if applicable)= *Qualified Basis*
- Qualified Basis x Tax Credit Rate (4% or 9%) x 10 years = *Total Value of Credit*
- Total Value of Credit x Synidicator's Price (e.g., 77 cents per dollar of credit) = *Equity Available*

HOME and LIHTCs

- Rents cannot exceed either program's limits
- Income eligibility:
  - Use Part 5 (Section 8) Annual Income
  - Must review source documents
- LIHTC typically requires review of source documents for income reexaminations
- Separate LIHTC and HOME monitoring

Combining HOME and LIHTC

- HOME funds as market rate loan (9% credit)
- HOME funds as below market loan with 9% credit
- HOME funds as below market loan with 4% credit
- HOME funds as grant

Combining HOME & LIHTC

- Occupancy requirements depend upon
  - Type of credit taken
  - Type of HOME funding provided (below-market or market rate)
- If taking the 9% credit and using a BMIR loan, higher occupancy standard applies

Overlapping HOME/LIHTC Rules

- Occupancy Requirements
- Rent Requirements
- Establishing Tenant Eligibility
- Reexaminations of Income
- Over Income Tenants
- Monitoring

Refinancing Guidelines

- Refinancing only allowed when necessary to permit or continue affordability
- Refinancing cannot be primary purpose of HOME investment

Refinancing Guidelines

- PJ must establish minimum refinancing guidelines and include in Consolidated Plan
- Guidelines must:
  - Demonstrate rehab is primary activity
  - Require a review of management to ensure no disinvestment in the property and future needs of project are being met

Home Lease Terms

- Leases must be for at least 1 year, unless agreed upon by owner and tenant
- Leases may not contain certain provisions
- Owner may terminate tenancy with 30 days notice under certain conditions
- Owners MUST adopt written tenant selection policies and criteria